

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 SSO-00 PA-01 PRS-01 USIE-00 AID-05
CIAE-00 COME-00 EB-08 FRB-03 INR-07 NSAE-00
TRSE-00 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01
L-03 H-01 INRE-00 NSCE-00 SS-15 STR-06 CEA-01
/079 W

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O R 162200Z JAN 78

FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC IMMEDIATE 9246

INFO AMEMBASSY NASSAU

AMEMBASSY PORT OF SPAIN

AMEMBASSY GEORGETOWN

AMEMBASSY BRIDGETOWN

C O N F I D E N T I A L KINGSTON 0349

E.O. 11652: GDS

TAGS: EFIN, JM

SUBJECT: ECONOMIC COMMENT ON JAMAICA'S DEVALUATION

REF: A. KINGSTON 0326; B. KINGSTON 0327

1. AS REPORTED IN REF A, THE GOJ ANNOUNCED ON JANUARY 13
A DEVALUATION OF THE JAMAICAN DOLLAR. THE "BASIC" RATE WAS
CHANGED FROM US\$1.00 EQUALS J\$0.91 TO US\$1.00 EQUALS J\$1.05
13.5 PERCENT), WHILE THE "SPECIAL" RATE WAS CHANGED FROM US\$1.00
EQUALS
JAMAICA J\$1.28 TO US\$1.00 EQUALS J\$1.35 (5 PERCENT).

2. THIS IS THE THIRD DEVALUATION OVER A NINE-
MONTH PERIOD, BUT IS THE FIRST TIME THAT THE BASIC RATE
(RESERVED FOR IMPORTATION OF ESSENTIAL FOODSTUFFS AND RAW
MATERIALS) HAS BEEN ALTERED. THE CUMULAAIVE DEVALUATION OF
THE SPECIAL RATE SINCE LAST APRIL IS NOW 33 PERCENT (FROM
J\$1.00 EQUALS US\$1.10 TO J\$1.00 EQUALS US\$0.74).

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3. THESE SUCCESSIVE DEVALUATIONS REFLECT BOTH THE
CONTINUED SERIOUSNESS OF THE COUNTRY'S BALANCE OF PAY-
MENTS PROBLEM AND THE GOVERNMENT'S WILLINGNESS TO MOVE
IN THE DIRECTION URGED BY THE IMF. THE LATEST UNOFFICIAL AND
VERY TENTATIVE FIGURES GIVEN BY BANK OF JAMAICA TO EMBASSY ECONOMIC
OFFICER INDICATE THAT THE BALANCE OF PAYMENTS DEFICIT FOR 1977

MAY BE IN THE ORDER OF J\$90 MILLION AT THE BASIC RATE (EQUAL TO US\$99 MILLION) COMPARED WITH AN EARLIER PROJECTION J\$50 MILLION. THE CHANGE IN FOREIGN EXCHANGE RESERVES IN 1977 IS ESTIMATED AT A MINUS J\$36 MILLION, COMPARED WITH A HOPED-FOR INCREASE OF J\$30 MILLION (KINGSTON 7075).

4. GIVEN THE MAGNITUDE OF THE BALANCE OF PAYMENT DEFICIT AND THE FACT THAT THE US DOLLAR IS CURRENTLY BEING TRADED ON THE BLACK MARKET AT ABOUT J\$2.50 TO

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US\$1, WE DOUBT THAT THIS LATES DEVALUATION WILL PROVE SUFFICIENT. IT MAY WELL HAVE TO BE FOLLOWED BY OTHERS. IT DOES, HOWEVER, REDUCE THE GAP BETWEEN THE "BASIC" AND "SPECIAL RATES" AND THUS MOVE IN THE SINGLE RATE DIRECTION URGED BY THE IMF.

5. TECHNICALLY, A SINGLE AND MORE SUBSTANTIAL DEVALUATION UNDERTAKEN LAST JULY TO COINCIDE WITH THE NEGOTIATIONS OF THE IMF STANDBY AGREEMENT AND THE ANNOUNCEMENT OF THE PARALLEL ECONOMIC ASSISTANCE PACKAGES WOULD HAVE BEEN FAR PREFERABLE TO PIECEMEAL DEVALUATION. THE LAST TWO DEVALUATIONS WERE BOTH MINOR, AT LEAST AS FAR AS THE SPECIAL RATE IS CONCERNED, AND ARE THUS UNLIKELY TO CONTRIBUTE IMPORTANTLY TO THE REDUCTION OF THE BALANCE OF PAYMENTS DEFICIT. MOREOVER, A SERIES OF DEVALUATIONS INEVITABLE GIVES RISE TO EXPECTATION OF FURTHER DEVALUATIONS AND THUS STIMULATES UNCERTAINTY, SPECULATION AND CAPITAL FLIGHT. THE GOJ WAS NO DOUBT AWARE OF THESE CONSIDERATIONS, BUT REJECTED THE ALTERNATIVE OF A SINGLE SUBSTANTIAL DEVALUATION OWING TO ITS SOCIAL AND POLITICAL IMPLICATIONS.

6. AS REPORTED IN REF B, THE GOJ ADMITS TO FAILURE TO MEET ONLY ONE OF THE IMF TARGETS (DOMESTIC ASSETS
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OF THE BANK OF JAMAICA). WE UNDERSTAND THAT IT ALSO FAILED TO MEET THE TARGET RE CHANGE IN NET FOREIGN EXCHANGE RESERVES (LARGELY AS A RESULT OF CANCELLATION OF THE PROMISED LOAN FROM TRINIDAD AND TOBAGO) AS WELL AS THAT ON WAGE GUIDELINE.

7. THE DEVALUATION PROVIDED THE GOVERNMENT WITH THE OPPORTUNITY TO SIGNIFICANTLY INCREASE THE PRICE OF SOME BASIC COMMODITIES THAT WERE PREVIOUSLY SUBSIDIZED AT GREAT COST TO THE GOVERNMENT THROUGH SALE AT THE BASIC RATE. THE GOVERNMENT HAS JUST ANNOUNCED A 14 PERCENT TO 15 PERCENT INCREASE IN THE PRICE OF GASOLINE AND A 21 PERCENT INCREASE IN THE PRICE OF COOKING GAS WHICH WILL CONTRIBUTE TO TAX REVENUES AND PROVIDE SOME RESOURCES FOR GOJ PROGRAMS TO CHSHION THE ADVERSE IMPACT OF THE DEVALUATION ON LOWER INCOME GROUPS.

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